

Arizona State Retirement System Board



Real Estate Asset Class Review

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Discussion Items

- Real Estate Program Overview
- Real Estate Program Activities
- Real Estate Program Snapshot
- Portfolio Performance
- Property Type and Geographic Diversification
- ASRS Owner/Occupied Properties
- Real Estate Market update

ASRS Real Estate Program - Overview

- Represents 6% of ASRS strategic asset allocation policy
- Invests in public and private, core and non-core U.S. and international institutional real estate markets
- Program Objectives: Achieve attractive risk-adjusted return, enhance diversification of ASRS' investment program
- Return expectation
 - NPI + 1%
 - 9% net (1% over the ASRS Actuarial 8% rate of return)

Program Activities

Year Ending June 30, 2007

- Modifications to the ASRS Real Estate Program Strategic Plan were approved by the Board in April 2007
 - Portfolio Composition changed to minimum 20% Total Core, maximum 30% Public Core and maximum 80% Total Non-Core
 - Total Program leverage changed to a maximum of 65%
- Ten (10) real estate mandates awarded with commitments totaling \$540 million

Since June 30, 2007

- Approximately \$140 million of our U.S. public real estate securities portfolio was transitioned to two new global real estate securities managers
- Awarded commitments to three (3) new real estate managers totaling \$150 million, Blackstone Real Estate Partners VI, L.P., Tishman Speyer Real Estate Ventures VII, L.P., and CIM Fund III, LLC.

ASRS RE Program Snapshot as of September 30, 2007

REAL ESTATE INVESTMENTS:	MARKET VALUES*	COMMITTED NOT YET FUNDED	TOTAL FUNDED/COMMITTED	% PORTFOLIO	Policy Allocation
Core - Private					
ASRS Owner/Occupied Bldgs/Jt. Land	\$ 56,725,000		\$ 56,725,000		
Hines US Core Office Fund:	\$ 20,965,771		\$ 20,965,771		
CIM Urban REIT	\$ 20,610,867	\$ 54,446,333	\$ 75,057,200		
	\$ 98,301,638	\$ 54,446,333	\$ 152,747,971	14.20%	
Core - Public					
ING/Clarion (Long/Short) REIT	\$ 23,189,543		\$ 23,189,543		
European Investors	\$ 64,615,985		\$ 64,615,985		
LaSalle Investment Management	\$ 83,115,225		\$ 83,115,225		
	\$ 170,920,753	\$ -	\$ 170,920,753	15.89%	Core Public Max 30%
Total Core:	\$ 269,222,391	\$ 54,446,333	\$ 323,668,724	30.08%	Total Core Min 20%
Non Core - Enhanced Return					
Tishman Speyer D.C. Office Portfolio	\$ -	\$ 20,000,000	\$ 20,000,000		
Heitman Value Partners II	\$ -	\$ 50,000,000	\$ 50,000,000		
PRISA II	\$ 20,502,000	\$ 40,698,000	\$ 61,200,000		
AEW Value Investors II, L.P.	\$ 9,831,030	\$ 40,168,970	\$ 50,000,000		
	\$ 30,333,030	\$ 150,866,970	\$ 181,200,000		
Non Core - High Return					
CIM Real Estate Fund III	\$ -	\$ 50,000,000	\$ 50,000,000		
Westbrook Partners Real Estate Fund VII	\$ -	\$ 44,000,000	\$ 44,000,000		
Blackstone Real Estate Partner VI	\$ 6,167,953	\$ 38,832,047	\$ 45,000,000		
Colony Investors VIII, L.P.	\$ 6,583,222	\$ 43,416,778	\$ 50,000,000		
Tishman Speyer Real Estate Venture VII	\$ 29,267,792	\$ 20,732,208	\$ 50,000,000		
Carlyle Realty Partners Fund V	\$ 7,898,466	\$ 42,101,534	\$ 50,000,000		
Rothschild Five Arrows IV	\$ 48,184,054	\$ 36,606,973	\$ 84,791,027		
Tishman Speyer Real Estate Venture VI	\$ 33,574,373	\$ 11,039,455	\$ 44,613,828		
RREEF Global Opportunities Fund II	\$ 34,116,513	\$ 11,415,978	\$ 45,532,491		
PLA Retail Fund I	\$ 17,102,809	\$ 45,168,539	\$ 62,271,348		
Dune Real Estate Fund	\$ 18,845,710	\$ 26,000,000	\$ 44,845,710		
	\$ 201,740,892	\$ 369,313,512	\$ 571,054,404		
Total Non-Core:	\$ 232,073,922	\$ 520,180,482	\$ 752,254,404	69.92%	Non-Core Max 80%
Total ASRS Real Estate Portfolio:	\$ 501,296,314	\$ 574,626,815	\$ 1,075,923,129		
As a % ASRS Market Value of \$27 billion					
1.86%				3.98%	

*Market values for Hines, CIM Urban REIT, Rothschild, Tishman Speyer VI, RREEF, PLA and Dune are as of 3/31/07 per The Townsend Group and include any fundings between 3/31/07 through 9/30/07.

*Market values for PRISA II, AEW, Tishman Speyer VII, Colony VIII, Blackstone VI and Carlyle equal funded amounts through September 30, 2007. These managers were hired during the 2Q07 and 3Q07 and updated financial reporting is not yet available.

*ING Long/Short, European Investors and LaSalle Investment Management market values is as of September 30, 2007.

Note: The current allocation reflects temporary imbalances that will be reduced in the future as the portfolio moves towards full allocation.

The snapshot above includes ASRS owner/occupied properties valued as of the most recent appraisal dated October 2006

Real Estate Program Performance

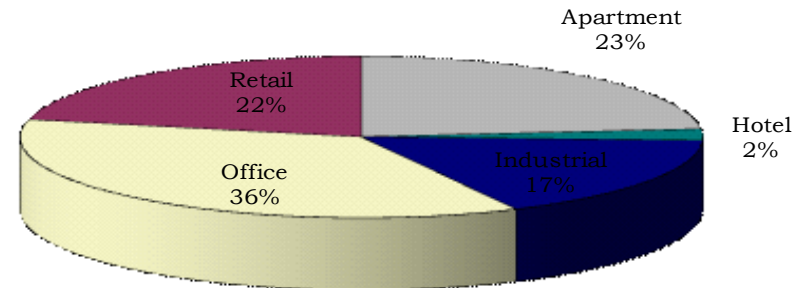
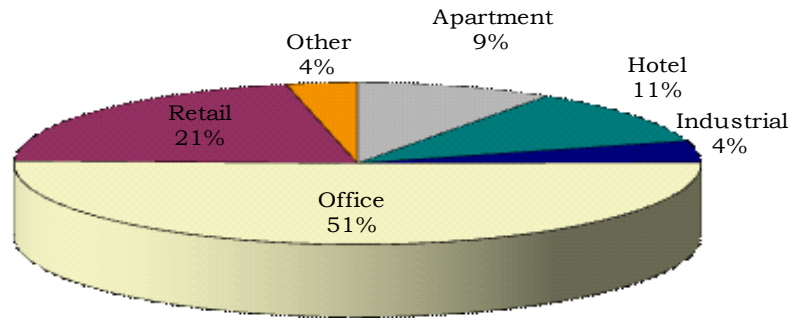
Portfolio Performance ¹		
	1 Year	Since Inception ²
Total ASRS Real Estate Portfolio	24.2%	26.3%
Plan Benchmarks		
	1 Year	Since Inception
NPI + 100 BPS	17.6%	18.5%
Constant 9%	9.0%	9.0%

Notes

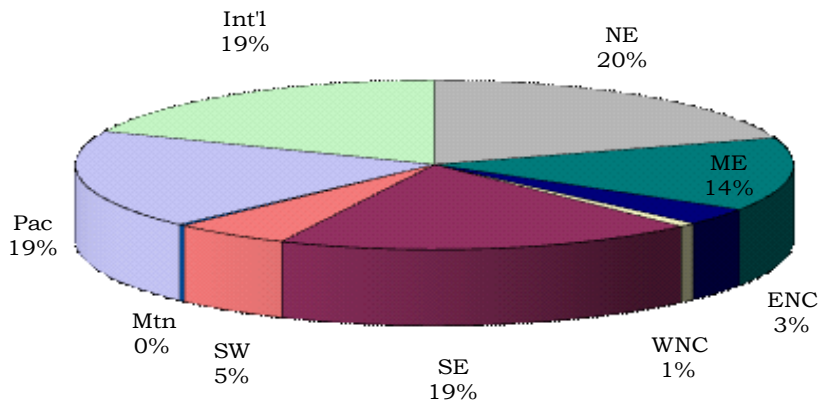
1) Per the June 30, 2007 Mercer Report (Real Estate lags by one quarter)

2) Inception date for performance is 10/1/05

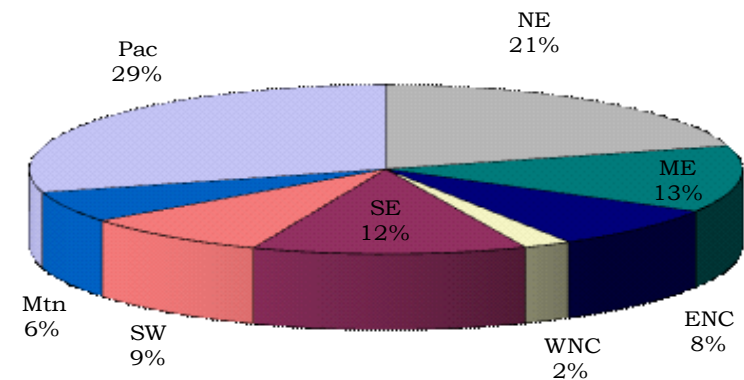
Property Type and Geographic Diversification



ASRS Geographic Diversification



NCREIF Geographic Diversification



*NCREIF - National Council of Real Estate Fiduciaries (5,466 properties with a total market value of over \$265 billion as of March 31, 2007)

Note: NCREIF diversification is only shown as a general reference point as the ASRS real estate program objective does not include replicating the NCREIF Index and over/under weights relative to NCREIF may be taken by the Real Estate Committee as it believes is warranted to achieve the program objectives.

ASRS Owner/Occupied Properties

	3300 Tower	JV Land	Broadway Proper
<u>Physical:</u>			
Location	Phoenix	Phoenix	Tucson
Property Type	High Rise Office	Vacant Land	Suburban Office
# Stories	26	-----	3
Bldg Sq. Ft.	363,655	-----	52,875
Land Sq. Ft.	224,200	69,531	200,304
Parking Spaces	1,053	-----	253
Occupancy % (9/30/06)	86.2%	-----	76%
(7/31/07)	90.7%		77.9%

ASRS Owner/Occupied Properties

3300 Tower (Phoenix)

- Increasing occupancy rates. 9/30/06 – 86.2% and 7/31/07 – 90.7%. Seeing significant renter interest in the market.
- Significantly higher rental rates in sub-market and at property over the past twelve months.
- Also seeing much higher tenant improvements costs due to increased construction costs and construction demand, however these costs will be somewhat mitigated by lower absolute costs due to second generation space. Leasing commissions have been stable.
- Sub-market fundamentals: Negative net absorption of 104,842 square feet since 2nd quarter of 2006. Vacancies have increased from 14.7% one year ago to 15.8% at 6/30/07. Average asking lease rates have increased from \$19.71 one year ago to \$24.41 today. A 24% increase.

Broadway Proper (Tucson)

- Suburban Garden Office.
- Stable to increasing rental rates and tenant improvement costs. However, expecting increasing tenant improvement costs going forward.
- Stable occupancy rates. 9/30/06 – 76% and 7/31/07 – 77.9%. Even though the expectation is that going forward the effect of the office condo market will diminish, since July 2007 we have lost 2 more tenants to office condos.
- Focus on improving occupancy in the balance of 2007 and 2008.
- In process of replacement and repairs of wood beams, stairwells and guardrails.

Hold/Sell Analysis

- The Real Estate Committee is currently in the process of performing a hold/sell analysis on the 3300 Tower and JV land in Phoenix and our suburban office building in Tucson.

Real Estate Market Update

- ASRS Real Estate Portfolio Manager and Consultant will discuss current real estate market conditions.